

Washington State Auditor's Office

Audit Report

Audit Services

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HIGHLINE WATER DISTRICT

King County, Washington

January 1, 1995 Through December 31, 1995

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HIGHLINE WATER DISTRICT
King County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With State
Laws And Regulations**

Board of Commissioners
Highline Water District
Kent, Washington

We have audited the financial statements, as listed in the table of contents, of the Highline Water District, King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 14, 1996.

We also performed tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the district complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office.

Compliance with these requirements is the responsibility of the district's management. Our responsibility is to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the district and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an overall opinion on compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our tests indicated that, with respect to the items tested, the district complied, in all material respects, with the applicable laws and regulations referred to in the preceding paragraphs. However, we noted an instance of noncompliance of regulatory requirements immaterial to the financial statements which is identified in the Schedule of Findings accompanying this report. With respect to items not tested, nothing came to our attention that caused us to believe that the district had not complied, in all material respects, with those provisions.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

November 14, 1996

HIGHLINE WATER DISTRICT
King County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Board of Commissioners
Highline Water District
Kent, Washington

We have audited the financial statements of the Highline Water District, King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated November 14, 1996.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the district, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted a reportable condition that we believe to be a material weakness, which is identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

November 14, 1996

HIGHLINE WATER DISTRICT
King County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. District Officials Should Ensure Changes Made To The General Ledger Are Authorized And Documented

The district utilizes the computerized accounting system CADO, which allows the following inappropriate changes to be made to the general ledger and utility billing systems without leaving an audit trail:

- a. Unauthorized, undocumented changes can be made to the general ledger master file beginning account balances or the monthly net transactions totals. Passwords are required to access the system, but these passwords are permanently hard-coded into the program software and cannot be changed by district officials to prevent the passwords from becoming known to unauthorized personnel.
- b. Unauthorized, undocumented changes can be made to specific transaction postings to the general ledger.
- c. Unauthorized, undocumented adjustments can be made to the utility billing system customer master file, changing the customer receivable balance without appearing on the customer account history. These last two functions have not been assigned any security features and can be accessed by all district staff.

The capability to make unauthorized, undocumented changes to the general ledger and utility billing systems could result in errors and irregularities that would not be detected in a timely manner.

The district is in the process of replacing the CADO system with a new accounting software program, scheduled to be fully implemented in 1997; however, for the period under audit, CADO was the only operational accounting system in place. We consider the above delineated problems to be a material weakness.

One of the reasons district management purchased the new system was to address these security deficiencies.

We recommend district officials attempt to ensure adequate security is maintained for the current accounting system. We also recommend district officials ensure audit trails are produced and maintained by the CADO system to verify all changes to the general ledger and utility billing system are authorized and documented.

Auditee's Response

The concerns expressed are valid, but are mostly the by-product of an accounting and utility billing system installed in 1982. A number of the expected security elements that would be found in a current system are or were not present in this rather mature system. We have purchased, are installing, and hope to go live the beginning of 1997, with a new fund based financial accounting and utility billing system. As to the review of adjustments to the account balances, we have modified our review procedure.

2 District Officials Should Approve Contracts For Consulting Services In Accordance With District Policy

In May 1995, the district paid Management Action Programs, Inc., \$6,875 for consulting services without a written contract or evidence of board approval. These services related to the selection of candidates to fill two vacant commissioner positions created when the district expanded from a three-member to a five-member board of commissioners.

The district's purchasing policies are codified in District Code Section 2.16. Section 2.16.090, Purchasing states:

(C) All purchase orders for . . . equipment or services in excess of five thousand dollars shall require the prior approval of the Board of Commissioners.

We found no resolution or minute entry specifically approving the purchase of these services. The one entry in the minutes dated April 25, 1995, related to this service, indicates the district general manager presented the name of the consultant to the board president and the board agreed to meet with the consultant prior to the candidate interviews. No mention was made about cost or any other aspects of the agreement. The amount finally paid appears to have been based on the per-day-fee the consultant charged the district under a previous contract for services entered into in 1994.

Without a written contract specifying the services to be provided and the fees to be charged, the district could be billed for services not intended to be purchased or for fees greater than expected to be paid for services provided.

District officials indicated the lack of a written contract and specific approval by board resolution was an unintentional omission caused by the short time period occurring between the time the decision was made to obtain the services and the time the actual services were provided.

We recommend district officials approve contracts for consulting services in accordance with district policy and obtain written contracts for consulting services.

Auditee's Response

While we agree the District purchasing procedures were not strictly followed, the subsequent Board approval of the voucher for the payment for the consulting services effectively indicated their acknowledgment of receipt of the services for a reasonable fee.

HIGHLINE WATER DISTRICT
King County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Financial Statements

Board of Commissioners
Highline Water District
Kent, Washington

We have audited the accompanying financial statements of the Highline Water District, King County, Washington, as of and for the fiscal years ended December 31, 1995 and 1994, as listed in the table of contents. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Highline Water District at December 31, 1995 and 1994, and the results of its operations and cash flows for the fiscal years then ended, in conformity with generally accepted accounting principles.

We have also issued a report dated November 14, 1996, on our consideration of the district's internal control structure and a report dated November 14, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

November 14, 1996